

1. EURA, in consultation with SOVA, has reviewed the attached State paper on East-West economic relations to be discussed at tomorrow's NSC meeting. We generally agree with the thrust of the paper and find it to be a fair summary of the issues. The paper also contains some useful proposals for Summit agreement on further action. Some specific comments or problem areas follow. (C)

2. Concerning Section I, the paper clearly is a diplomatic document that concentrates on areas of agreement rather than disagreement. Nevertheless, the glowing description of the outcome of the December COCOM High Level Meeting is a little too self-serving and transparent. It might be better to acknowledge some of the areas of disagreement (or at least tone down the self-congratulations) and then go on to highlight the relatively forward-leaning proposals for Versailles follow-up on pages 4-6. (C)

3. Section II, Foreign Policy Contingency Plans, is remarkably bland. Again, we recognize that the paper is aimed at providing a positive interpretation of history and that the USG wishes to avoid a direct link between Polish martial law and Western action vis-a-vis the gas pipeline or credits to the USSR. Nevertheless, analysis of allied reaction to Polish martial law could be much more candid and hard-hitting. (C)

4. Concerning Section III, Washington's current game plan calls for bilateral and multilateral negotiations leading to a Versailles Summit announcement of Big Seven agreement on the need for quantitative restrictions on officially supported credits to the USSR. This Section, however, could be used by our Allies to undercut Washington's position that such concerted action is needed. The section focuses on the financial deterioration already suffered by the East Bloc and the vulnerability of Western financial systems to the growing threat of Eastern default -- conditions the West Europeans can

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use to buttress their arguments against further punitive action and for essentially a defensive posture on East-West credit relations. Instead, we could be more up front in laying out the bases for a concerted attempt to limit Soviet capabilities. A bare policy statement is already in the paper, on page 9: "The financial choices facing the Soviets this decade provide an unusual opportunity to use credit policy as a means to reduce Moscow's available resource pie..." The problem is that, to be effective with our Allies, this policy statement must be supported by an articulate exposition of the military/economic tradeoffs underlying our call for a more restrictive relationship. Such an exposition could include the argument that the uncontrolled and competitive provision of official credits and credit guarantees to the USSR simply makes no economic sense; nor does it make sense for the West to spend billions for defense against the Soviets and then loan them money at subsidized rates. And it is particularly senseless when the Soviet Union is carrying out an unprecedented arms buildup that directly threatens our common security. (C)

5. Continuing in Section 3, ^{SOVA has} ~~the~~ data at variance with that presented on page 9, Availability of Credits: "The Soviets borrowed nearly \$2 (vice \$3.6) in private unguaranteed medium and long term credits and another \$3 (vice \$6) billion in short-term credits in 1981. Private credits thus accounted for about 50% (vice 80%) of total new borrowing of \$10 (vice \$12) billion." In addition, on page 10, first complete paragraph, ^{SOVA} ~~the~~ argues that "Western government credit restraints, if sustained, could moderately reduce the USSR's hard currency capabilities in the longer term (vice in the next few years)." (C)

/ too cryptic!

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